AFTERWORD

THE writer and his critics seem to be discussing the living-cost basis from viewpoints of different breadth. For the most part Professor Feis and Dr. Drury speak, consciously or unconsciously, in terms of wage adjustments in a particular industry, in a particular locality or restricted region, even in a single plant. Dr. Drury, for instance, talks about transferring to the workers some of the "differential profits" of the more favored or better managed plant. He and others also claim the possibility of transferring some of the profits of an entire industry to the workers by means of wage-rate advances. Professor Feis in particular puts forth the proposition to limit profits to some "fair rate" by advancing wage-rates to absorb any excess of profits over such a rate.

Now the writer has already shown that a wage-rate increase that is confined to a single plant or to a few plants in an industry may come at the expense of the profits of the employers affected; indeed that a rate advance that is general to an entire industry may to *some* extent and for a while come out of profits, because the public in its consuming capacity reduces its consumption of the product. Most of the advantage so gained, however, is at the expense of wage earners in other industries; over against the rate advance is the loss from reduced employment; finally, when the process of adjustment within the industry has been completed —the disappearance of some employers, the retardation of the growth of the industry until the needs of the growing population catch up with its capacity at the higher costs and prices —there is no reason to believe that any of the advantage held by those workers who *remain* in the industry is at the expense of their employers' profits.

Inadequacy of Living-cost Basis in Universal Application

The viewpoint from which the writer discussed the living-cost basis was that of *universal application*. So long as the application is restricted to a small part of the whole wage-earning population —to one plant, to one locality, even to one or a few industries—it will be effective in part at least. The narrower the restriction the greater is the effect. However, the success of one group of workers in getting their wage demands granted is the signal for other groups to make similar demands. As the wage adjustment extends through plant after plant, locality after locality, industry after industry, the advantage gained in the earlier adjustments diminishes and fades away. By the time the wage advance has become universal it will have become ineffective; *i.e. unless it has been applied in such manner as generally to have increased the rate of production per man-year.* In the writer's view, any alleged principle that brings its own defeat when carried out to its logical conclusion is not a valid principle.

Mr. Gompers says: "We wage earners know that from time to time we have increased our home comforts by forcing a more equitable distribution of incomes." Certainly they have—*those that obtained the increases.* This would be the case whether the rate advance they forced came in the vanguard of the rate movement, in which case the affected workers fared better for a while, partly at the expense of their employers, mainly at the expense of the remaining mass of workers; or in the rearguard to relieve the deprivation to which those who preceded them in the movement had subjected them. The preceding sentence assumes, merely for

sake of the argument, that before the rate movement commenced, the rates of all workers were justly proportioned one to another; also that the rate advances were rate advances only, *i.e.* were not accompanied by increased productivity. We have elsewhere intimated that some groups of workers may be underpaid as compared with other groups. Furthermore, we recognize that selecting one group of low-paid, under-nourished workers and deliberately over-paying them may have the effect of increasing their productivity. We insist, however, that if and whenever we decide to do this, all parties should know precisely what is being attempted.

Rate Increases a Matter of Proportion

It should be distinctly recognized that the general rate increases the writer is discussing are *proportionate* increases. We are considering wage adjustments in response to changes in living cost. If there should, as a matter of principle, be any such adjustments, the rate advance that should follow a 10 per cent advance in living cost should be a 10 per cent advance, not a flat five-dollar-a-week advance. Professor Feis proposes either the latter or a compromise between the two. The only logical justification of this course is that the lower-paid workers are *underpaid* as compared with the higher-paid workers. But if this is true, surely the proper course of action is to correct the inequitable proportions, irrespective of whether there has been a change in the cost of living. The basis of such a correction must be a *relative valuation of the various kinds of work, i.e. "relative rating."*

The writer has been represented as making certain assumptions: that competition works perfectly; that a uniform wage-rate exists for all plants; that industrial motives are unchanging; that all price advances are caused by wage-rate increases; that the marginal productivity theory as applied to labor and to industrial establishments is valid as traditionally expounded in texts on economics. The writer has made no such assumptions. His understanding of the laws that govern the division of the product of industry is about seven degrees removed from the marginal productivity theory as traditionally expounded. He knows from actual observation that competition is neither universal nor guided by full information; that there are many plants whose management is so inefficient that they survive only by reimbursing themselves for the wastes of mismanagement out of the wage-rates of their employes. He would feel no compunction about eliminating these by adjusting the wage-rates of their employes to proper relationship to other wage-rates and eventually transferring their business and their employes to their more efficiently managed competitors. However, relative rating, not living cost, is the proper basis on which to do this. Nor can he see Dr. Drury's consistency in wishing, at one point, to *level up rates*, by elevating those of these exploited workers in his "marginal plants," and, at another point, to make them diverge again, by raising rates in the more favored or better managed plants in order to appropriate for the workers a part of the "differential profits."

Nor does the writer assume that all price advances are caused by wage-rate advances. He does assume, however, that general price advances or recessions do not come *without* cause, and that whatever the cause—inflation of the currency, decreased productivity of industry such as occurred during the disorganization prevailing in the war period, population increase outstripping the improvement of the productive

arts and the accumulation of capital—that cause is operating just as effectively *after* an arbitrary wage advance as *before*.

He does not assume that industrial motives do not change. However, he sees no reason to believe that the motives that actuate the profit pursuer, the landowner or the saver are made any weaker or any stronger by a mere wage-rate increase or decrease. If one could grasp the idea that, under our more-or-less-competitive-private-initiative-profit-motivated-individual-freedom form of industrial organization, the proportions in which the product of industry is divided among the various factor-persons are the ever-changing resultant of a very intricate clash of human wills—commodity competing with commodity in the mind of each consumer, producer competing with producer in selling, employer competing with employer for labor, worker competing with worker for employment, consumer competing with consumer in the purchase of commodities, and so on—he should easily comprehend that no mere general proportionate wage-rate advance or recession that employers would not have granted or exacted in any event, is going to have more than a passing influence upon these distributive proportions. Professor Feis and Dr. Drury can improve the well-being of restricted groups of workers for a while by restricting the area of their operations. However, when it comes to general application, Professor Feis' proposition to limit profits to some "fair rate" by means of wage-rate advances *unaccompanied by price control,* reminds the writer of the Scandinavian God Thor's attempt to drain a certain goblet at one draught, only to discover when exhaustion of his capacity compelled him to desist that the bottom of the goblet was secretly connected with the ocean.

Determination of Normal Proportions as Guides in Wage Disputes

Professor Carver contents himself with stating a principle, which is our old friend, the law of supply and demand. We have stated that "the final test of the relative accuracy of any system of wage-rates is their relative power of attracting and holding workers in the proportions in which they are wanted." Disputes do arise, however, and cases do come before wage boards or arbitrators for decision. In such cases the law of supply and demand is not very helpful to the adjudicator. We have assumed that amid all the varying market proportions there is a set of normal proportions among the wage-rates for the various grades of work and that it would be helpful not only to adjudicators but to plant managers, to the general public and to all concerned, if these normal proportions were determined, or at least closely approximated, and used as a guide to decisions.

The only employer who contributed a discussion, which even he afterwards withdrew, while agreeing with the writer's position concerning the living-cost basis, thinks that the suggested procedure for relative rating "out-Taylors Taylor" in the matter of detail of scientific study; that the work involved would be endless, that it would be ineffective, anyway, unless agreed upon and lived up to by employers and employes, a stipulation which he considers to be hopeless, and that, after all, the proposition contains nothing new. However, the union scale and other scales of which he speaks are not based on carefully determined *performance standards,* which are an indispensable element in any relative rating that is worthy of the name. If the proposition were to establish a governmental commission to make com-

prehensive, detailed scientific studies, establish relative valuations of the myriads of operations and rigorously apply them throughout industry, we should agree that such a course is entirely impractical, particularly at the present stage of development.

The writer's purpose is two-fold; viz: (1) to show the fallacy and unsatisfactoriness of the living-cost basis and to substitute another basis and procedure in the minds of all parties to wage disputes, especially in the mind of the arbitrator, however rough the application may have to be at this juncture; (2) to set up a goal toward which future development may consciously progress. The great bulk of the study is not going to be done by any governmental agency, but *within individual plants* in each of the various industries. A few enlightened employers have already been applying the idea for some time with mutual satisfaction to themselves and their employes. They find it an advantageous substitute for the haphazard trial-and-error method of applying the law of demand and supply. Their numbers will increase. When sufficient progress has thus been made within plants in each of the various industries, it will then be feasible to bring the results together in inter-industry relative rating. There is, however, the important need of standardizing the procedure and methods of investigation and rating so that the results *can* be brought together.

Mr. Portenar, who follows a printing trade, says: "If the results of your 'relative rating' and the union scale coincide closely, there will not be any trouble at that moment. If you let us in on the making of it, it will lubricate the process." When we look through this more or less competition-restrained profit-motivated private initiative, which is merely the external *form* of our industrial organization, to the underlying real purpose of it, which is the maximum economic well-being, not of any one person, class or group, but of *all*, we cannot see that the workers' right to be "let in on the making" can validly be denied.

VALID JUDGMENT BASED ON PRODUCTIVITY AND NORMAL RELATIONSHIP

We recognize that employers who wish to build up their work forces more rapidly than the growth of the population and displacement of workers elsewhere will permit, are going to exceed any scale rates that may be agreed upon. However, it is not likely that we should have anything like the range of variation of rates within the same occupation or grade of work that we now have. We assume that groups of workers will continue to "surge against their wage-rate";[1] we hope, at least, that each individual will persistently surge against his wage-rate and continuously prepare himself to render service of higher and higher value. However, when groups "surge," the general public needs a means of validly judging the merits of the surge. So does the arbitrator of wage disputes. We hold that the effective issue is whether the particular wage-rates demanded substantially restore the normal relationship with the general mass of other wage-rates.

Finally, when all parties come to recognize that, practically, the wage question is a question, first, of the productivity of industry, second, of proportion between the incomes of different groups of workers and not of division between workers and employers, we believe that such recognition will make for greater stability of industry and for better coöperation of employes with employers to increase the productivity of industry and provide more to divide.—T. W. MITCHELL.

[1] *Cf.* Article by H. B. Drury in this volume.